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TESTING TIMES  
AHEAD FOR THE  
MEDITERRANEAN  
NATIONS AS  
THE  
RELIABILITY  
OF SOVEREIGN  
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CALLED INTO  
QUESTION



THE ADVENT OF “PIGS”!

WHY ARE THE WORDS “SOVEREIGN DEFAULT” BANDIED AROUND WITH INCREASING FREQUENCY THESE DAYS?

CAN THE CRISIS BE AVERTED?

THE INDIAN ANGLE ON SOVEREIGN DEBT

## The advent of “PIGS” !

Since the dawn of the New Year, the economic activities of the “PIGS” (an acronym for a group of countries, namely Portugal, Italy, Greece and Spain) have come under increased scrutiny from the international investment community, with the threat of “sovereign default” lurking just around the corner. Investors now fear that if sovereign default were to take place in these countries, it could lead to disastrous ramifications across the world, particularly due to the inter-connectedness of world markets and modern day economies.

## Why are the words “Sovereign default” bandied around with increasing frequency these days?

Sovereign default refers to a situation when the government of a particular country is unable to repay its debt. Government bonds and debt, until recently, were considered to be extremely safe, with virtually no chance of a default. However with the onslaught of the recession and the subsequent introduction of various financial stimulus packages, the government expenditure in various countries took on gargantuan proportions. To support these packages the government was forced to borrow heavily and utilize its fiscal tools to garner more funds, consequently generating high fiscal deficits. While most countries had manageable fiscal

deficits, the governments of the so-called ‘PIGS’ nations mopped up a huge debt bill. The state of affairs in Greece, which represents the epicentre of the sovereign default malaise, is shambolic, as the country was known to live beyond its means. Greece governments in the past have always exhibited severe fiscal laxity which led to huge fiscal account and current account deficits. Add an uncompetitive private sector to those problems and external borrowing seemed to be the only option left for the Greece government. *The lack of fiscal prudence and an unhealthy need to borrow beyond one’s needs has been the common theme amongst the PIGS nations.*

## Can the crisis be averted?

At this moment it is difficult to say if the crisis can be avoided entirely, but with the aid of other Eurozone members and the IMF, there is a strong possibility of delaying the process and probably even avoiding sovereign default. Towards the end of 2008 one witnessed a similar episode with the government of Dubai on the verge of sovereign default. Fortunately enough, its oil-rich neighbor Abu Dhabi, donned the mantle of 'the lender of the last resort' and rescued Dubai from the crisis.

If Greece and its Mediterranean counterparts default on their sovereign debt, it could have severe implications on the future of the Euro zone and the Euro. Heavyweights like Germany and France would not want to jeopardize the position of the Euro and the possibility of them bailing out the troubled PIGS nations particularly Greece has been mooted in the media.

## The Indian angle on sovereign debt

Even though the Indian government's debt bill is not as bad as that of the Greece government, it still doesn't make for pleasant reading. Nevertheless, the Indian government is conscious of this and has already taken preliminary steps to reign in public expenditure. However the single most distinguishing factor between the Indian government's debt bill and the Greece government's debt bill is that it has been incurred domestically while its Greek counterparts have racked up a huge external debt obligation. The Indian government was able to limit its debt obligation within the Indian territory mainly due to the high rate of savings prevalent in the Indian market. As long as debt is limited to the Indian economy it is manageable.

**The Indian government and the regulatory authorities need to be commended for exhibiting remarkable fiscal prudence and ensuring adequate regulatory provisions over the years gone by. A continuation of these principles will hold us in good stead even as we wade through the aftermath of the recession and march on to becoming a superpower.**

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